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REPORT ON THE AUDIT OF THE KENYA COUNTRY OFFICE BY THE OFFICE OF INTERNAL AUDIT

SUMMARY

This report responds to Executive Board decision 1995/27 (E/ICEF/1995/9/Rev.1), adopted at the third regular session of 1995, in which the secretariat was requested to report to the Board at each session about all future audit activity in the Kenya office until the matter is resolved.

* E/ICEF/1997/2.

INTRODUCTION

1. This report responds to Executive Board decision 1995/27 (E/ICEF/1995/9/Rev.1), adopted at the third regular session of 1995, in which the secretariat was requested to report to the Board at each session about all future audit activity in the Kenya office until the matter is resolved.

I. OUTCOME OF THE FOLLOW-UP AUDIT

2. UNICEF internal auditors undertook a follow-up audit in September 1996. Since then, management has been finalizing implementation of audit recommendations and further strengthening internal controls in the Kenya country office. The Director of the Office of Internal Audit was able to confirm in mid-November 1996 that all but 10 of the 67 audit recommendations originally made had been finalized in their entirety and that good progress had been made in implementing the outstanding recommendations.

3. The auditors could see that over the past 18 months, considerable efforts had been directed towards reconciling accounts, reconstituting records and liquidating outstanding cash assistance. Moreover, support was now being sought from the Kenyan Auditor-General to justify liquidating the remaining outstanding assistance. But the auditors could also see that in some cases the necessary records and files were missing and could not be reconstituted. Consequently, further work in those cases would be fruitless. However, the Kenya office is expected to:

(a) Maintain a strong internal control framework within the Kenya country office and also ensure that strong controls exist within all recipients of assistance;

(b) Provide clear evidence that such controls are operating in practice.

4. The auditors concluded that a strong internal control framework existed, but that the controls had not yet been fully tested because the current UNICEF programme did not yet involve a sufficient volume of transactions. The auditors expected to be able to give an assurance that strong internal controls are operating in practice following their next regular audit of the Kenya country office.

5. The UNICEF programme is now more focused, with only six components and a correspondingly reduced number of projects. It has been possible to reduce the number of staff from 254 in January 1995 to 78 in November 1996.

6. As a result of the original audit, 23 staff had been summarily dismissed. All cases had been referred to the Kenyan authorities. The UNICEF auditors had cooperated fully with the six officers working on the cases during their follow-up audit and had been impressed by the seriousness they attached to the task. The first case went to trial in late October 1996.

II. ILLUSTRATIONS OF THE INTERNAL CONTROLS NOW IN PLACE

7. At the third regular session of the Executive Board in September 1996, one delegation requested information on the internal controls now in place. The UNICEF auditors identified the following illustrations:

(a) Procedures manuals covering both operations and programme activities had been prepared by local management. These had been further refined and will be used as the underlying base for internal controls in the Kenya country office;

(b) Training was being provided to staff to strengthen their understanding of internal controls within the office;

(c) The office had taken action to strengthen internal controls within counterparts (non-governmental organizations and government agencies). At the suggestion of the auditors, the office had implemented procedures to:

(i) Establish a profile of counterparts showing their track record (quality of documentation, performance, etc.);

(ii) Assess internal controls in place in counterparts;

(iii) Help counterparts to understand the concepts of financial accountability;

(iv) Monitor their financial accounts and programme activities;

(d) A revised office structure had been implemented to improve control over monitoring of cash and supply assistance;

(e) The supply and information resource management functions of the country office had been consolidated with those of the UNICEF Regional Office for Eastern and Southern Africa, which was also based in Nairobi. This had both improved control over these activities and had also helped to secure economies of scale;

(f) There was now an effective segregation of duties, a more defined delegation of authority and clear lines of accountability;

(g) Systems had been established to minimize the risk of duplicate payments;

(h) A new operations officer with a strong audit and operations background had been recruited;

(i) The closure of a warehouse in November 1996 had both eliminated control risks and also secured economies, resulting in savings of $10,000 a month. All items had been sold by public auction, donated or recycled.

III. OTHER ACTIONS TAKEN

8. Flowing from the UNICEF Management Excellence Programme, regional offices now take a proactive role in terms of oversight of all field offices. To establish a more realistic span of supervision, country representatives now report to regional directors to increase accountability and oversight. This will be supported by the development of the Programme Manager System, which will contain a facility for holding representatives accountable for resource allocation decisions that can be easily identified by regional offices and headquarters. Regional management teams will evaluate regional results and lessons learned. Moreover, regional directors have clearly defined responsibility for monitoring implementation of internal audit recommendations in their regions.

9. UNICEF internal auditors have also refined their approach for identifying which offices to visit. They now take into account risk factors such as large suspense account balances and late submission of accounts. The Office of Internal Audit is tracking implementation of audit recommendations more closely and is undertaking follow-up visits in cases where there are concerns regarding implementation.

10. At headquarters level, the Division of Financial and Administrative Management is considering the establishment of an operations review section to strengthen oversight of all field offices. This would help headquarters to spot the obvious indications of problems in field offices and to ensure that corrective action was taken in response. This section would visit field offices to ensure that the offices had the capability to secure effective internal control. It would provide on-the-job training and technical assistance as required.

IV. CONCLUSION

11. The follow-up audit confirmed that the considerable efforts made to implement the auditors' 67 recommendations and to establish a strong internal control environment within the Kenya country office had secured positive results. But the strengthened controls had not been fully tested because the current, much-reduced UNICEF programme in Kenya did not yet involve a sufficient volume of transactions. The auditors expected to be able to give an assurance that strong internal controls are operating in practice following their next regular audit of the Kenya country office. In the meantime, the UNICEF Regional Office for Eastern and Southern Africa would be undertaking quarterly checks to ensure that internal controls are operating effectively. More generally, oversight of all field offices had been strengthened, and UNICEF internal auditors, when selecting field offices to visit, were taking into account the type of risk factors that had been evident in the case of the Kenya country office.